

CREDIT UNION DIVISION



Roger W. Little
Deputy Commissioner

Tim C. Standfest
Assistant Director

Paul A. Tautkus
Assistant Director

Debra S. Hallenbeck
Senior Review
Examiner

Sharon M. Long
Executive Secretary to
Deputy Commissioner

Esther Torres
Examinations Secretary

AUTHORITY

The Credit Union Division regulates and supervises state-chartered credit unions under the authority of the Michigan Credit Union Act (Public Act No. 285 of 1925). The division's primary goal is ensuring that state-chartered credit unions operate safely and soundly, and in compliance with state and federal statutes.

PERSONNEL AND TRAINING

Deputy Commissioner Roger Little directs a division comprised of a highly trained, professional staff of examiners and office employees. The division has two distinct units. One of these is responsible for Corporate Activities and Automated Systems Examinations. It has two examiners and is managed by Assistant Director Paul Tautkus. The other unit is managed by Assistant Director Tim Standfest and is responsible for Examination Activities. This unit has 24 examiners, plus five regional supervisors.

Credit Union Division management continues to provide extensive training and professional development to its employees. In 1999, division management and staff attended training sessions sponsored by both the National Credit Union Administration (NCUA) and the National Association of State Credit Union Supervisors (NASCUS). These sessions provided up-to-date training on examination issues such as Y2K compliance, current and emerging issues, investments, consumer and real estate lending, fraud detection, and effective problem resolution. They also afforded an exchange of ideas and experiences with examiners from outside Michigan.

In March 1999, all division examiners and supervisors attended a writing class presented by Dr. Tom Murawski, a nationally-recognized expert on writing techniques. Because our product

is essentially narrative, we continue to strive for improvement in written communications.

The division held a week-long training conference for its examiners and supervisory staff in Saginaw during October 1999. Topics included electronic and home banking, bankruptcy reform, prompt corrective action (see "Emerging Issues"), and the Community Reinvestment Act.

EXAMINATION AND SUPERVISION

The division's goal is to perform an annual examination of 100% of our state-chartered credit unions. We met the goal in 1999, examining all 301 credit unions (including Central Corporate Credit Union). Examiners also performed 39 interim contacts at credit unions exhibiting problem areas. In addition to on-sight contacts, supervision occurred via monthly reporting to assigned examiners.

The division's approach to examination is "risk-based." Each Examiner-in-Charge determines the scope at the onset of the examination, based on the perceived risk inherent in the credit union's operation. Factors involved in the scope determination include, but are not limited to: prior examination findings and ratings; perceived quality and stability of management; the complexity of the credit union's product offerings; results of the annual comprehensive audit; and information provided by management on the "pre-examination survey."

The division continues to use the CAMEL rating system, which assigns ratings for Capital, Asset Quality, Management, Earnings and Liquidity. These areas receive a rating of 1 (best) to 5 (worst). A composite rating derives from the component ratings, and examiners' overall assessment of risk.

Credit unions which receive a CAMEL composite of "3" or below must submit monthly reports to their assigned examiners. Examiners compile and analyze the information. FIB management reviews and coordinates supervision efforts.

Communicating findings to management is an integral part of the examination. An exit conference occurs at the conclusion of examination fieldwork. For problem credit unions, (those rated CAMEL composite "3" or below), we request the attendance of key officials at the exit conference. We also discuss our findings with the entire Board of Directors at a meeting subsequent to their receipt of the examination report. We believe this contact aids communication of the problem areas, and hastens resolutions. In 1999, we met with 28 boards of directors.

We continued to work cooperatively with the NCUA. The NCUA is responsible for the safety and soundness of the National Credit Union Share Insurance Fund, to which all Michigan state-chartered credit unions belong. The NCUA performs insurance-risk reviews in coordination with

annual examinations and interim regulatory contacts. Our supervisory and administrative personnel meet with their NCUA counterparts quarterly to discuss problem credit unions' progress, and schedule joint contacts.

The overall condition of Michigan state-chartered credit unions remained strong in 1999. However, some credit unions suffered from poor earnings, high loan delinquency, high loan losses, declining capital, or a combination of these impairments. These negative indicators were usually the result of poor management, or decisions made without sufficient research and planning. The number of problem credit unions increased 25% in 1999, while the amount of total credit union assets in problem credit unions increased 19%. At year-end, the percentage of total credit union assets in problem credit unions was 11%, up slightly from 1998's 10%.

Y2K DILIGENCE

The division devoted considerable resources in 1999 to Y2K issues. Assistant Director Tautkus and his crew of Automated Systems examiners were responsible for overseeing Y2K compliance. Throughout 1999, Mr. Tautkus and staff monitored quarterly self-evaluation forms from credit unions, and transmitted readiness information to the NCUA. They also evaluated each credit union's Y2K-readiness checklist prepared during the annual examination. The Automated Systems examiners contacted institutions

which exhibited potential problems, and offered guidance for correcting those problems. They also conducted Y2K-readiness evaluations of major credit union data processing vendors. Whenever potential problems were apparent, swift action was taken to ensure no interruption of vital processing needs.

Partially as a result of the hard work and diligence by Assistant Director Tautkus and his crew, and our staff of field examiners, Michigan credit unions experienced no significant computer-related problems associated with the changeover from 1999 to 2000.

CORPORATE CHANGES

The 301 Michigan state-chartered credit unions at December 1999 represent a 5% decrease from the 316 in existence at December 1998. During 1999, 11 credit unions merged into other state-chartered credit unions, and 4 credit unions merged into federally-chartered credit unions. Mergers usually occur when a credit union's management is unwilling or unable to bring about changes necessary to operate the credit union in a safe and sound manner. Larger, well-operated credit unions can absorb troubled credit union's assets, liabilities and capital. In most cases, the result for the members of the merged credit union is an increase in the number of financial services available.

Several credit unions amended their bylaws in 1999. Bylaw amendments are

available to fit the needs of individual credit unions. The most common type of amendment continued to be field-of-membership expansion.

INDUSTRY ASSOCIATIONS

The division continues to work cooperatively with trade associations and professional organizations devoted to the benefit of the credit union industry. As part of our commitment we sent representatives to industry-related functions in 1999. Senior division staff members were featured speakers on various topics for meetings of the Michigan Association of Credit Unions and the Michigan Credit Union League. Deputy Commissioner Little and Assistant Director Tautkus appeared on several televised forums discussing the impact of Y2K on financial institutions.

The division remains closely involved with NASCUS. NASCUS promotes the dual chartering system, and the autonomy of state regulatory agencies. Deputy Commissioner Little serves on the NASCUS Board of Directors, and is active in policy formulation. During 1999, the division was subject to a comprehensive five-year re-accreditation by NASCUS. The re-accreditation involved extensive self-evaluation, prepared by examination and supervisory staff, and on-site review of the division's operation by NASCUS representatives. The division received unqualified approval of its operation during the accreditation. Michigan's Credit Union Division was the first state regulatory

authority to receive NASCUS accreditation, in 1989, and we remain committed to the high ideals for which it stands.

Division management continued to meet semi-annually with the Credit Union Advisory Council. We established the Advisory Council to foster better communication between the FIB and its regulated credit unions. The council is comprised of 12 credit union executives and a volunteer credit union official. At the 1999 meetings, topics included Y2K preparedness, risk-based lending, ACH issues, prompt corrective action (see "Emerging Issues"), proposed rule changes, and predatory lending practices.

FINANCIAL TRENDS

Michigan state-chartered credit unions experienced moderate asset growth of 5% in 1999. Loans outstanding increased by more than 9%, while investment balances decreased by more than 25%. As a result, the aggregate Loans to Assets ratio increased from 61% at year-end 1998 to 64% at year-end 1999. The aggregate Return on Assets decreased from 1998's 0.96% to 0.87%. The aggregate level of capital to assets increased slightly, from 11.46% to 11.51%.

EMERGING ISSUES

Future regulatory issues include home banking, and the security and disclosure requirements demanded by this emerging technology. We also continue to monitor credit unions' experience with risk-based

lending, which assigns interest rates based on objective, measurable risk.

Part of H.R. 1151, the Credit Union Membership Access Act enacted in 1998, is “prompt corrective action,” or PCA. PCA refers to the regulatory remedies required if a credit union’s net worth to assets ratio falls below a prescribed level. Although the basic components of PCA are in place, their application has yet to be finalized, with implementation taking effect August 7, 2000.

INFORMATION

Visit our Web page at

<http://www.cis.state.mi.us/fib/>

The Web site contains credit union listings (by name and by city), statutes, rules, bylaws, bulletins, forms, applications, and answers to frequently asked questions.

CONSOLIDATED BALANCE SHEET OF STATE-CHARTERED CREDIT UNIONS

(EXCLUDES CENTRAL CORPORATE CREDIT UNION) (000's OMITTED)

	December 31, 1999	December 31, 1998	Percent Increase (Decrease)
ASSETS			
Loans			
Unsecured/Credit Card/Lines of Credit	\$ 1,318,072	\$ 1,302,690	1.18%
Vehicle	2,862,187	2,680,686	6.77
Real Estate	3,379,161	2,824,129	19.65
Other	593,459	581,058	2.13
Allowance for Loan Losses	(57,681)	(57,128)	0.97
Investments			
U.S. Government Obligations and Federal Agency Securities	756,552	663,662	14.00
Corporate Credit Unions	390,952	1,454,248	(73.12)*
Other Credit Unions	26,001	18,427	41.10
Commercial Banks, Savings and Loans, and Mutual Savings Banks	384,973	544,950	(29.36)
Mutual Funds and Common Trust Investments	48,639	45,768	6.27
NCUA Share Insurance Capitalization Deposit	101,085	90,871	11.24
Other	1,332,869	1,240,451	7.45
Cash and Cash Equivalents	1,118,390	301,881	270.47*
Net Fixed Assets	290,949	260,894	11.52
Other Assets	157,587	146,794	7.35
Total Assets	\$12,703,194	\$ 12,099,381	4.99%
LIABILITIES AND EQUITY			
Liabilities			
Notes Payable	\$ 89,199	\$ 39,125	127.98
Accrued Dividends/Interest Payable	33,365	31,453	6.08
Other Liabilities	73,838	75,660	(2.41)
Savings			
Regular Shares	3,805,770	3,779,604	0.69
Share Drafts	1,384,452	1,319,045	4.96
Money Market Shares	2,108,363	1,853,884	13.73
Share Certificates	2,394,165	2,297,391	4.21
IRA/KEOGH	877,481	864,234	1.53
Other	475,043	452,458	4.99
Equity			
Regular Reserves	429,005	394,569	8.73
Investment Valuation Reserve	6,967	559	1,146.33
Accumulated Unrealized Gains (Losses) on Available for Sale Securities	454	30,625	(98.52)
Other Reserves	215,043	207,262	3.75
Undivided Earnings	810,049	753,512	7.50
Total Liabilities and Equity	\$12,703,194	\$ 12,099,381	4.99%

*Reporting change for 1999: reclassified interest-bearing daily accounts as cash in accordance with generally-accepted accounting principles.

CONSOLIDATED STATEMENT OF OPERATIONS OF STATE-CHARTERED CREDIT UNIONS (EXCLUDES CENTRAL CORPORATE CREDIT UNION) (000's OMITTED)

	1999	1998	Percent Increase (Decrease)
Operating Income			
Interest on Loans	\$660,042	\$639,102	3.28%
Less: Interest Refunded	(3,619)	(3,225)	12.22
Income from Investments	229,285	220,875	3.81
Fee Income	74,767	66,481	12.46
Other Operating Income	25,969	22,638	14.80
Total Operating Income	986,464	945,871	4.29
Cost of Funds			
Dividends	187,593	174,173	7.70
Interest on Deposits	209,292	212,702	(1.60)
Interest on Borrowings	2,371	1,772	33.80
Total Cost of Funds	399,256	388,647	2.73
Net Margin	587,208	557,224	5.38
Operating Expenses			
Employee Compensation and Benefits	207,249	192,497	7.66
Cost of Space	31,342	27,572	13.67
Office Operations Expense	106,387	94,730	12.31
Professional and Outside Services	34,109	35,565	(11.56)
Operating Fees	4,266	4,284	(0.42)
Other Operating Expense	66,451	59,432	11.81
Provision for Loan Losses	30,655	34,663	(11.56)
Total Operating Expenses	480,459	448,743	7.07
Net Operating Income	106,749	108,481	(1.60)
Non-Operating Gains	1,378	2,047	(32.68)
Net Earnings	108,127	110,528	(2.17)%

SIGNIFICANT DATA AND FINANCIAL RATIOS OF STATE-CHARTERED CREDIT UNIONS (EXCLUDES CENTRAL CORPORATE CREDIT UNION)

	1999	1998	1997	1996	1995
SIGNIFICANT DATA					
Number of credit unions	300	315	320	323	334
Number of credit union members	2,566,542	2,516,915	2,445,380	2,412,073	2,377,955
Total assets*	\$12,703,194	\$12,099,381	\$10,795,308	\$10,021,691	\$9,403,097
Total loans outstanding*	8,152,878	7,388,563	6,884,814	6,269,436	5,716,202
Total shares and deposits*	11,045,273	10,566,616	9,388,617	8,765,771	8,259,599
Amount of loans granted during year*	4,401,071	4,214,076	3,769,350	3,536,764	3,100,613
*(000's omitted in dollar amounts)					

SIGNIFICANT RATIOS

Net Equity/Total Assets	11.51%	11.46%	11.73%	11.28%	10.78%
Delinquent Loans/Total Loans	0.77	0.89	0.99	0.99	0.89
Allowance for Loan Losses/Delinquent Loans	91.35	87.24	82.37	87.76	104.44
Allowance for Loan Losses/Total Loans	0.71	0.77	0.81	0.87	0.93
Net Charge-Offs/Average Loans	0.37	0.47	0.45	0.37	0.30
Net Income/Average Assets	0.87	0.96	1.05	1.10	1.13
Gross Income/Average Assets	7.95	8.26	8.47	8.33	8.20
Cost of Funds/Average Assets	3.22	3.40	3.43	3.34	3.30
Net Margin/Average Assets	4.74	4.86	5.04	4.99	4.90
Operating Expenses (- PLL)/Average Assets	3.38	3.62	3.70	3.65	3.60
Provision for Loan Losses/Average Assets	0.25	0.30	0.29	0.24	0.17
Loan Income/Average Loans	8.49	8.96	9.18	9.28	9.29
Investment Income/Average Investments	6.55	5.97	6.18	5.89	5.70
Interest and Dividends/Average Total Savings	3.67	3.88	3.91	3.80	3.72
Total Loans/Total Assets	64.18	61.07	63.78	62.56	60.79
Total Investments/Total Assets	23.14	33.54	30.97	32.15	33.58
Fixed Assets/Total Assets	2.33	2.16	2.14	2.05	2.05
Total Loans/Total Savings	73.81	69.92	73.33	71.52	69.21
Total Borrowings/Total Savings	0.81	0.37	0.33	0.21	0.23

DISTRIBUTION OF GROSS INCOME

Interest refunded to borrowers	0.36%	0.34%	0.44%	0.44%	0.48%
Operating expense	45.43	43.63	43.45	43.60	43.87
Provision for loan loss expense	3.10	3.65	3.43	2.83	2.13
Interest on borrowings	0.24	0.19	0.22	0.11	0.14
Interest and dividend cost	40.09	40.76	40.11	39.83	40.23
Retained earnings	10.78	11.43	12.35	13.19	13.15
Total	100.00%	100.00%	100.00%	100.00%	100.00%

CLASSIFICATION OF STATE-CHARTERED CREDIT UNIONS BY ASSET SIZE (EXCLUDES CENTRAL CORPORATE CREDIT UNION)

	Number of Credit Unions		Increase (Decrease) In Number From Prior Year	1999 Total Assets (000's Omitted)	Percentage In Group
	1998	1999			
\$250,000 or less	6	5	(1)	\$ 788	0.01%
\$250,000 to \$500,000	6	6	0	2,563	0.02
\$500,000 to \$1,000,000	11	6	(5)	3,960	0.03
\$1,000,000 to \$2,000,000	21	19	(2)	27,151	0.21
\$2,000,000 to \$5,000,000	39	38	(1)	130,587	1.03
\$5,000,000 to \$10,000,000	43	38	(5)	277,352	2.18
\$10,000,000 to \$20,000,000	48	46	(2)	656,944	5.17
\$20,000,000 to \$50,000,000	78	68	(10)	2,236,003	17.60
\$50,000,000 to \$100,000,000	35	42	7	2,668,670	21.01
\$100,000,000 to \$200,000,000	17	20	3	2,606,674	20.52
\$200,000,000 to \$400,000,000	8	9	1	2,559,609	20.15
Over \$400,000,000	3	3	0	1,532,893	12.07
Total	315	300	(15)	\$12,703,194	100.00%

1999 CREDIT UNION DIVISION REGIONS AND FIELD STAFF

INFORMATION SYSTEMS— STATEWIDE

Terry L. Hassell, Senior Examiner
Patricia K. Marson, Senior Examiner

REGION 1—LOWER PENINSULA EXCLUDING SOUTHEAST MICHIGAN

Freya I. McGinty, Regional Supervisor
James H. McMullen, Exam Manager
Anthony A. Hamilton, Senior Examiner
Mark A. Utrecht, Senior Examiner
Jeffrey J. Ballard, Senior Examiner
Brent A. Moeggenborg, Senior Examiner

REGION 2—SOUTHEAST MICHIGAN

Alice L. Censier, Regional Supervisor
Wanda F. Marshall, Exam Manager
Toni L. Girolami, Senior Examiner
Debra R. Sitz, Senior Examiner
Carl Woods, Senior Examiner
Stephen J. Doemer, Examiner
Crystal Richland, Examiner

REGION 3—SOUTHEAST MICHIGAN

Delores T. Bledsoe, Regional Supervisor
David A. Rogers, Exam Manager
Rosalyn D. Gibson, Senior Examiner
Brenda S. Hopper, Senior Examiner
Dollinda Osborne, Senior Examiner
Stanley R. Kossakowski, Examiner
Marc E. Suchyta, Examiner

REGION 4—UPPER PENINSULA

Gary D. Groves, Regional Supervisor
John M. Lyle, Exam Manager
David J. Theoret, Senior Examiner

REGION 5—LOWER PENINSULA EXCLUDING SOUTHEAST MICHIGAN

Leanne M. O'Brien, Regional Supervisor
Scott D. Thompson, Exam Manager
Robert J. Krueger, Senior Examiner
Stephen L. Nakfoor, Senior Examiner
Denice L. Fedewa, Examiner
Karen J. Tingley, Examiner